

The Budgetary Consequences of Decisions to Date: The FY 2000 On-Budget Surplus Will Become an On-Budget Deficit

HBC Democratic Staff, August 5, 1999

Emergencies and Tax Cuts. According to the July 27th Congress Daily, a Republican staffer asserted that even with the tax cut and the census “emergency,” there would still be an on-budget surplus in FY 2000 using CBO estimates. (An “on-budget” surplus means that the government is in surplus not counting Social Security.) Table 1 shows the story Republicans were telling.¹

Table 1: The Republican Story for FY 2000, as of July 27

CBO July 1 estimate of the on-budget surplus	\$14.4 billion
less higher outlays or lower revenues because of:	
-- House-passed tax cut, FY 2000	-4.5
-- emergency designation for the Census and Veterans Health	<u>-4.1</u>
equals expected on-budget surplus	5.8

CBO’s July 1st estimate of a \$14.4 billion on-budget surplus assumed *no* tax cut, *no* emergency funding, and strict adherence to the discretionary outlay caps *using CBO estimates*. Declaring the entire cost of the census an emergency is an obvious gimmick designed to evade the caps. Paradoxically, the Republicans refused to declare additional funding for FEMA — for hurricanes, tornados, and other natural disasters — an emergency, yet they declared the decennial census, which is mandated by the Constitution, an emergency. No matter how Republicans ultimately treat the census, a complete analysis shows that an on-budget *deficit* for FY 2000 is in the works. Based on House and Senate decisions to date, the on-budget deficit will reach at least \$23.6 billion. The preceding Republican table is incomplete in at least seven ways:

1. Yesterday the Senate passed \$7.3 billion in emergency spending for drought relief. Emergency spending reduces the surplus because, in effect, it allows appropriations to exceed the existing statutory caps. The reason emergency spending does not *literally* breach the caps — and therefore force a sequestration of discretionary programs — is that the caps are automatically increased by the amount of emergency BA and outlays.
2. There are four other types of funding that, under existing law, increase the caps in exactly the same way as emergency funding:
 - funding for “continuing disability reviews” (CDRs) of SSI eligibility;
 - funding for payments of dues in arrears to international organizations;
 - funding for Earned Income Tax Credit compliance work by the IRS; and
 - funding for adoption incentive payments.

¹ The Republican staffer pointed out that the issue is not the amount of budget authority (BA) that is designated “emergency,” but rather the amount of outlays estimated to flow in FY 2000 from the emergency budget authority. The \$4.5 billion “emergency” budget authority for the Census is estimated by CBO to produce \$4.1 billion in FY 2000 outlays. At the time of Congress Daily’s July 27 story, the HUD-VA subcommittee had also designated \$2.7 billion in outlays for veterans’ health care as an emergency, but since that time, the Appropriations Committee has decided to remove the emergency designation from the VA funds.

In each case, there is a dollar limit to the amount by which the caps may be increased. EITC and arrearage funds are already included in House appropriation bills, and CDR and adoption incentive funds are virtually certain to be included in the Labor-HHS-Education bill. Thus, all these amounts should be added to the above list, because they will increase discretionary spending above the amount CBO assumed. These amounts total \$1.0 billion in BA and about \$0.5 billion in FY 2000 outlays.

3. Both the House and Senate Budget Committee Republicans have directed CBO to score the outlays for appropriations bills \$13.5 billion below the level CBO actually estimates. This is done through “scoring plugs;” CBO estimates the FY 2000 outlays resulting from the funding for each individual appropriation account, and then reduces its outlay total by including a “scoring plug” in the amount the Republicans dictate. Of the \$13.5 billion in scoring plugs, \$9.7 billion is for defense.
4. Republicans have ordered CBO to give credit to \$2.6 billion in proceeds from accelerating the scheduled auction of part of the electromagnetic spectrum — allowing Appropriations to spend these proceeds on other programs. OMB thinks such a policy will generate \$2.6 billion in proceeds in FY 2000, although it would cost that much in later years. But CBO thinks that it will generate *no* proceeds in FY 2000.

Republicans may rationalize the scoring adjustments discussed in points 3 and 4 on the grounds that the results will approximate the lower levels of outlays that OMB would likely estimate, and therefore are not likely to trigger a sequestration of discretionary funding. On the other hand, that rationale is inconsistent with Republican pledges since 1995 to use CBO estimates. That rationale also means Republicans cannot legitimately use CBO reestimates to criticize the President’s budget.

5. Republicans have ordered CBO to credit the Appropriations Committee with \$0.5 billion in BA and outlay “savings” for a windfall in criminal fines paid to the Crime Victims’ Fund — allowing Appropriations to spend these “savings” on other programs. In May, some pharmaceutical companies pleaded guilty to price fixing; by law, the fines will accrue to the federal Crime Victims’ Fund and will later be distributed to state crime victims’ funds. That windfall payment is likely to be received in FY 1999 and returned to the states in FY 2000 — that’s what OMB expects, and OMB therefore built those FY 2000 costs into its Mid-session budget update. If OMB is right, that windfall would actually *increase* FY 2000 outlays, making the situation \$0.5 billion worse, not better. In this instance, therefore, House Republicans are dictating that CBO use estimates both CBO *and* OMB disagree with.

Taking points 3, 4, and 5 together, Republicans have ordered CBO to say that appropriation bills will cost \$16.7 billion less than what CBO really estimates. Consequently, if the Appropriations Committee spends right up to the caps using these scorekeeping “adjustments,” it will be spending \$16.7 billion more than the caps using CBO’s real estimates.

6. To reflect the full budgetary effect of the higher spending and lower revenues discussed above, one must also account for the consequent increase in interest payments on the national debt, because the debt will be larger than if those amounts had instead been used to build surpluses and retire debt, as CBO assumed.
7. Finally, Congress treats the administrative costs of the Social Security program as “on-budget” because OMB has ruled that these costs are subject to the discretionary caps. Congress explicitly treated those administrative costs as “on-budget” in its budget resolution. Those costs total about \$3.3 billion per year. CBO views them as “subject to caps but off budget.” Thus, for any given level of total spending and revenues, CBO shows an on-budget surplus about \$3.3 billion higher than what Congress would show. (Congress has treated those costs as on-budget since the discretionary caps were created in FY 1991.)

It is disingenuous for the Republicans to change the congressional treatment of these costs midway through the year. Congress could have agreed with CBO in April, but having officially disagreed, the Republicans cannot unilaterally change the treatment — only Congress can, by agreeing to a new budget resolution. The Republicans should admit that a \$14.4 billion on-budget surplus under CBO’s treatment is equivalent to an \$11.1 billion on-budget surplus under Congress’s treatment.

Taking the seven points into account would produce a more accurate table and would show that Congress is headed for at least a \$23.6 billion on-budget *deficit*, as follows:

Table 2: The Real FY 2000 Budget Picture to Date

CBO July 1 estimate of the on-budget surplus*	\$11.1 billion
less higher outlays or lower revenues because of:	
-- tax cut (conference agreement), FY 2000	-5.3
-- emergency designation for the census	-4.1
-- emergency designation for drought relief	-7.3
-- other “cap adjustment items”	-0.5
-- outlay increases hidden by “outlay plugs” or other HBC scorekeeping dictates:	
• outlay plugs on appropriations bills to date	-12.2
• expected outlay plugs for VA-HUD and Labor-HHS-Education	-1.3
• scorekeeping dictate on spectrum auction (defense bill)	-2.6
• scorekeeping dictate on Crime Victims’ Fund receipts (CJS bill)	-0.5
-- debt service on above	-0.9
-- other gimmicks to come	<u>?</u>
Equals expected on-budget deficit	-23.6

* Using Congressional treatment of OASDI administrative costs.

NOTE: may not add due to rounding.

What is OMB likely to say? As noted, the outlay plugs dictated by Republicans are loosely based on OMB's appropriations estimates. Of course, no one knows whether OMB's or CBO's estimates are better. Over the past six years, OMB has a better track record on the broad aggregates, although that doesn't mean OMB has a better track record on discretionary outlays. But suppose, for the sake of argument, we wanted to see what the above table would look like if we accepted OMB's estimates. In that case, we wouldn't have to account for the instances in which Republicans dictated that CBO use scoring plugs that approximate OMB's estimates.

We also wouldn't have to account for the other "cap adjustment items" because OMB has already included those amounts in its estimate of the surplus on the grounds that the President has requested them.

Nevertheless, using OMB estimates would *still* result in a noticeable on-budget deficit.

Table 3: Possible Results Using OMB Estimates

OMB June 28 estimate of the on-budget surplus*	\$1.5 billion
less higher outlays or lower revenues because of:	
-- tax cut (conference agreement), FY 2000**	-5.3
-- emergency designation for the census	-4.1
-- emergency designation for drought relief	-7.3
-- other "cap adjustment items"	na
-- outlay increases hidden by "outlay plugs" or other HBC scorekeeping dictates:	
• outlay plugs on appropriations bills to date	na
• expected outlay plugs for VA-HUD and Labor-HHS-Education	na
• scorekeeping dictate on spectrum auction (defense bill)	na
• scorekeeping dictate on Crime Victims' Fund receipts (CJS bill)	-0.5
-- debt service on above	-0.4
-- other gimmicks to come	<u>?</u>
Equals expected on-budget deficit	-16.2

* Using Congressional treatment of OASDI administrative costs.

** These are JTC estimates because year-by-year Treasury estimates are not available.

NOTE: may not add due to rounding.
